

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06
COME-00 EB-08 LAB-04 SIL-01 ABF-01 OMB-01 TRSE-00
DHA-02 HEW-04 /092 W
-----211944Z 130985 /43

R 211737Z JAN 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4949
INFO AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL FRANKFURT
AMCONSUL HAMBURG
AMCONSUL MUNICH
AMCONSUL STUTTGART
USMISSION USBERLIN
AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY ROME
USMISSION EC BRUSSELS
AMEMBASSY THE HAGUE
AMEMBASSY VIENNA
AMEMBASSY STOCKHOLM
AMEMBASSY LUXEMBOURG
AMEMBASSY COPENHAGEN
AMEMBASSY LISBON
AMEMBASSY OSLO
USMISSION GENEVA
AMEMBASSY MADRID

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E.O. 11652: N/A
TAGS: ELAB, SOCI, GW
SUBJECT: COALITION AGREES ON ADDITIONAL PENSION
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PROPOSAL

REF: (A) BONN 0765; (B) BONN 20954 (76); (C) BONN
20857 (76); (D) BONN 18431 (76)

SUMMARY: THE NEW LABOR MINISTER, HERBERT EHRENBERG
(SPD), HAS PROPOSED A NEW ADDITIONAL MEDIUM TERM MEASURE TO HELP

RESOLVE THE PROBLEM OF THE FINANCIAL DIFFICULTIES IN THE OLD AGE PENSION FUNDS BY DRAWING ON UNEMPLOYMENT INSURANCE RESOURCES. IN THE PAST, A WORKER'S TIME SPENT ON THE UNEMPLOYMENT ROLLS WAS CREDITED TO WORKING TIME WHEN HIS PENSION WAS COMPUTED DESPITE THE FACT HE DID NOT PAY CONTRIBUTIONS. EHRENBERG'S NEW PLAN, WHICH HAS BEEN APPROVED BY THE SPD/FDP COALITION, REQUIRES THE UNEMPLOYMENT INSURANCE FUND TO PAY THE OLD AGE INSURANCE CONTRIBUTIONS FOR UNEMPLOYED WORKERS AS WELL AS COSTS FOR VOCATIONAL REHABILITATION PROGRAMS. THUS, THE GOVERNMENT ESTIMATES THAT THE OLD AGE INSURANCE FUNDS WILL RECEIVE ABOUT 3.1 BILLION DM OF ADDITIONAL INCOME IN 1979 AND 1980, WHICH WILL HELP RELIEVE THEIR PROJECTED FINANCIAL DEFICITS. IN OUR VIEW, THE PROJECTION IS BASED ON A SOMEWHAT OVER-OPTIMISTIC FORECAST OF UNEMPLOYMENT TRENDS AND UNEMPLOYMENT INSURANCE INCOME; OTHER CORRECTIVE MEASURES WILL BE NEEDED. END SUMMARY.

1. ONE OF THE MAJOR CAUSES OF THE PENSION FUNDS' LIQUIDITY DIFFICULTIES WAS THE SHARP DROP IN EMPLOYMENT ASSOCIATED WITH THE RECESSION IN 1975. CONTRIBUTIONS DROPPED; AT THE SAME TIME EXPENDITURES ROSE SHARPLY AS A RESULT OF 1972 PENSION REFORM LEGISLATION.

2. UNDER FRG SOCIAL SECURITY LEGISLATION, A WORKER'S TIME SPENT ON THE UNEMPLOYMENT ROLLS IS CREDITED TO WORKING TIME WHEN HIS PENSION IS COMPUTED. THE NEW FRG LABOR MINISTER EHRENBERG (SPD) PROPOSED THAT, SINCE

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NO SOCIAL SECURITY CONTRIBUTIONS WERE BEING COLLECTED FROM THE UNEMPLOYED, THE UNEMPLOYMENT INSURANCE FUNDS SHOULD BE REQUIRED TO MAKE THOSE CONTRIBUTIONS AND THUS AMELIORATE THE LOSS OF INCOME OF OLD AGE INSURANCE INSTITUTES. BEGINNING IN 1979, EHRENBERG'S PLAN WOULD REQUIRE THE FEDERAL EMPLOYMENT SERVICE (WHICH ADMINISTERS THE UNEMPLOYMENT INSURANCE SYSTEM) TO PAY THE FULL AMOUNT OF OLD AGE INSURANCE CONTRIBUTIONS -- NOW 18 PERCENT -- FOR ALL UNEMPLOYED PERSONS AND TO ASSUME THE COSTS OF VOCATIONAL REHABILITATION PROGRAMS NOW OPERATED BY THE OLD AGE INSURANCE SYSTEM. THE TRANSFER OF THESE MONIES -- ESTIMATED AT DM 3.1 BILLION IN 1979, ABOUT THE SAME IN 1980 -- WOULD COME FROM ANTICIPATED SURPLUSES IN UNEMPLOYMENT INSURANCE FUNDS MADE AVAILABLE BY A DROP IN UNEMPLOYMENT. DURING COALITION NEGOTIATIONS ON JANUARY 13-14, THE SPD/FDP AGREED TO ACCEPT EHRENBERG'S PROPOSALS AS PART OF THE GOVERNMENT PROGRAM TO BE SUBMITTED TO THE BUNDESTAG FOR APPROVAL.

3. THE COALITION PROPOSAL IS BASED ON THE ASSUMPTION
THAT THE UNEMPLOYMENT INSURANCE FUND WILL ACCUMULATE
SURPLUSES OF ABOUT DM 10 BILLION BY 1980 IF UNEMPLOYMENT IN
THE FRG DECLINES IN LINE WITH THE FOLLOWING GOVERNMENT
PROJECTION: 850,000 UNEMPLOYED IN 1977, 775,000 IN

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1978, 700,000 IN 1979, AND 630,000 IN 1980.

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4. COMMENT: THE NEW APPROACH INITIATED BY LABOR
MINISTER EHRENBURG REPRESENTS A SOPHISTICATED AND CLEVER
MOVE TO FIND A FACE-SAVING WAY OUT OF THE DILEMMA. THIS
ATTEMPT AT A SOLUTION FITS IN WITH THE SYSTEM AND IT
ALSO APPEARS LOGICAL SINCE WORKERS RECEIVE CREDIT FOR
PERIODS OF UNEMPLOYMENT AT THE TIME WHEN THEIR PENSIONS
ARE COMPUTED AT RETIREMENT WITHOUT HAVING PAID SOCIAL
SECURITY TAXES FOR SUCH PERIODS. THE CONCEPT ITSELF
IS NOT NEW; FOR EXAMPLE, FROM 1936-45, THE UNEMPLOYMENT
INSURANCE, THE SO-CALLED "REICHSSSTOCK", WAS ALSO RE-
QUIRED TO GRANT SUBSIDIES TO OTHER SOCIAL SECURITY
CARRIERS WHICH WERE UNABLE TO MEET THEIR OBLIGATIONS.
THE SUCCESS OF THIS PROGRAM, HOWEVER, DEPENDS ON A
NUMBER OF UNCERTAINTIES AND IMPOUNDERABLES. GOVERNMENT
PROJECTIONS ON THE DEVELOPMENT OF UNEMPLOYMENT APPEAR
TO BE OVER-OPTIMISTIC. UNEMPLOYMENT IN 1976 STILL
AVERAGED 1,060,000 (4.6 PERCENT) AND THE UNEMPLOYMENT
INSURANCE FUNDS OF THE FEDERAL EMPLOYMENT SERVICE IN
THAT YEAR REGISTERED A DEFICIT OF OVER DM 2 BILLION
WHICH HAD TO BE MADE UP FROM GOVERNMENT FUNDS. THE
INCREASE IN UNEMPLOYMENT CONTRIBUTIONS FROM 2 TO 3
PERCENT EFFECTIVE JANUARY 1, 1976, WHICH WAS ORIGINALLY
DESIGNED AS A TEMPORARY MEASURE, HELPED TO IMPROVE
THE FINANCIAL SITUATION IN 1976. HOWEVER, IN VIEW OF
THE NEW COMMITMENTS, A REDUCTION OF CONTRIBUTIONS
ORIGINALLY ENVISAGED FOR 1978 IS NOW DEFINITELY OUT OF
THE QUESTION.

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Message Attributes

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Copy: SINGLE
Sent Date: 21-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
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Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 22 May 2009
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